

This letter discusses tax issues related to the sale of residential security systems. See 35 ILCS 120/1. (This is a GIL.)

August 16, 2007

Dear Sir/Madam:

This letter is in response to your letter received in Legal Services on June 28, 2007, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at [www.ILTAX.com](http://www.ILTAX.com) to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

In an effort to assure we are fully compliant with your sales tax or other reporting requirements, we are contacting you regarding our tax ID number, tax classification and the frequency for reporting.

Please note the following information to assist in answering the brief questionnaire that follows. We would like the information returned by April 10, 2007

- 1) ABC incorporated on April 18, 2006 and became XYZ.
- 2) Our business process is: licensed door to door sales-personnel contact potential customers, or the customer may call in. A technician installs a basic set of security monitoring equipment on which XYZ has previously paid sales tax. The initial equipment is provided free to the customer, XYZ maintains ownership of the equipment and, and, [sic] at any point of default or cancellation by the customer, XYZ recovers all monitoring equipment. After the sale and installation of the initial equipment, the customer may purchase additional alarm equipment. XYZ has also previously paid sales tax on the 'upgrade' equipment. The customer pays for the upgraded equipment and owns that equipment.

The object of the initial sales contract is for security alarm monitoring services. The customer is charged an activation fee at the time of installation, and the 3-5 year sales

contract can be paid in monthly installments or in its entirety. The actual Monitoring Services are hired by XYZ, and may be managed remotely or locally.

**Because we have already paid sales tax on the equipment that we install, do we have any ongoing tax liabilities for your entity?**

**Yes\_\_\_\_\_ (Please continue with questionnaire)**

**No\_\_\_\_\_ Thank you for your assistance. Please record your entity name below. Please fax this to # or fold this paper with our address showing, staple or tape it closed and return to us.**

#### QUESTIONNAIRE

1. Licensing:
  - a. What is the sales or use license # you show for our entity?  
\_\_\_\_\_When was it effective\_\_\_\_\_?
  - b. If separate license(s) are required, please send application information.

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2. Business Classification and Reporting.
  - a. Is Remote Security Monitoring Service taxable in your entity?  
Yes\_\_ No\_\_ Rate\_\_\_\_
  - b. Would there be use tax of the initial equipment?  
Yes\_\_ No\_\_ Rate\_\_\_\_
  - c. Would there be sales tax on the upgrade equipment?  
Yes\_\_ No\_\_ Rate?\_\_\_\_
  - d. We would prefer to file annually, is that acceptable?  
Yes\_\_ No\_\_ Mnthly\_\_ Qtrly\_\_
  - e. Are there any other reporting requirements for your entity?  
Yes\_\_ No\_\_  
If Yes, please send information or indicate how we can access the information.
  - f. What is your website?

Thank you for your time to complete this questionnaire.

**ENTITY RESPONDING (City) \_\_\_\_\_ (State) \_\_\_\_\_**

#### DEPARTMENT'S RESPONSE

In order to incur Illinois sales tax liability, there must be a sale of tangible personal property. When vendors provide security systems and monitoring services without transferring any tangible personal property, no Retailers' Occupation Tax is due on the transaction. However, vendors who use tangible personal property in Illinois, (e.g. in providing security systems and monitoring services) owe Use Tax on the cost price of the tangible personal property they use.

With regard to add-on protection items, title to which is transferred to customers, taxability will depend upon whether or not these items are permanently affixed to realty. If add-on protection items are permanently affixed to a structure as part of the sale by the vendor so as to constitute real estate, the vendors would owe Use Tax based upon their cost price of the add-ons. This is because Illinois law deems persons who take tangible personal property and convert it into real estate to be

construction contractors who are the legal end-users of the property. See the enclosed copy of 86 Ill. Adm. Code 130.1940.

Vendors who sell equipment without permanently affixing it to real estate make retail sales of tangible personal property and are responsible for Retailers' Occupation Tax. Installation of such items may be subject to tax. See 86 Ill. Adm. Code 130.450.

We note that the monitoring services provided may be subject to the Telecommunications Excise Tax. Since no inquiry was made in this regard, we will not address this matter. However, for reference, the Telecommunications Excise Tax Act is set forth at 35 ILCS 630/1 et seq.

If you need information about your registration with the Department, please contact the Department's registration division at (217) 785-3707.

If you require additional information, please visit our website at [www.ILTAX.com](http://www.ILTAX.com) or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Martha P. Mote  
Associate Counsel

MPM:msk